Department of Environment and Conservation

For the Years Ended
June 30, 1999, and June 30, 1998

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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(615) 741-2501

John G. Morgan
Comptroller

April 25, 2001

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Milton H. Hamilton, Jr., Commissioner
Department of Environment and Conservation
401 Church Street
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Environment and Conservation for the years ended June 30, 1999, and June 30, 1998.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Environment and Conservation's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of Environment and Conservation is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. In addition, two special investigations disclosed certain findings which are detailed in the Special Investigations section. The department's administration has responded to the findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Environment and Conservation's management in a separate letter.

Sincerely,

John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/mb
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State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit

Department of Environment and Conservation

For the Years Ended June 30, 1999, and June 30, 1998

AUDIT SCOPE

We have audited the Department of Environment and Conservation for the period July 1, 1997, through June 30, 1999. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the following areas: state parks, citizen support organizations, equipment, the public relations contract, fee collections in the environmental divisions, the Division of Underground Storage Tanks, the Division of Water Pollution Control, the Solid Waste Assistance Fund, the Financial Integrity Act, Department of Finance and Administration Policies 16 *(Employee Housing and Meals)* and 18 *(Journal Vouchers – Type J)*, Title VI of the Civil Rights Act of 1964, and Title IX of the Education Amendments of 1972. The audit was conducted in accordance with generally accepted government auditing standards. In addition, two special investigations were conducted by staff of the Division of State Audit.

AUDIT FINDINGS

Weak Controls Over Cash Receipts at the State Parks**

At Paris Landing State Park, Roan Mountain State Park, Bicentennial Mall State Park, and Radnor Lake State Natural Area, cash receipting duties are not properly segregated, and cash is not adequately safeguarded (page 5).

Proper Purchasing Procedures Not Followed

At Paris Landing State Park, Roan Mountain State Park, Bicentennial Mall State Park, and Radnor Lake State Natural Area, invoices are being split into purchase order amounts of not more than $400 to circumvent the approval and bid requirements (page 7).

Inadequate Accountability Over Equipment

During the audit period, the department reported that 280 items of its equipment had been lost or stolen. The department did not always remove these items from the Property of the State of Tennessee system timely. Also, the department does not keep accurate records about the location and identifying information of equipment (page 10).

Weak Controls Over the Cash-Receipting Process**

In some of the environmental divisions, periodic reconciliations are not always performed by someone independent of the cash receipting process (page 12).

Financial Responsibility Rules Not Enforced*

The Division of Underground Storage Tanks does not enforce its rules requiring tank owners or operators to demonstrate financial responsibility for cleanup costs associated with petroleum leaks (page 15).

Inadequate Controls Over Underground Storage Tank Fund Expenditures*
Neither inspections of cleanup sites nor field audits of contractors' invoices are routinely performed to ensure that contractors are not abusing the reimbursement system. The Division of Underground Storage Tanks is not processing requests for reimbursement timely and is not maintaining necessary supporting documentation (page 16).

Procedures for Delinquent Accounts Not Followed**
The Division of Water Pollution Control does not always follow the department's procedures for billing and collecting delinquent accounts (page 19).

State Policy on Providing Housing Not Followed
An employee lived in state-owned housing and was paid a housing allowance for approximately three years. An employee was paid a housing allowance for approximately five years, although his job duties did not justify it. The list of employees receiving state-owned housing or a housing allowance contained errors (page 22).

SPECIAL INVESTIGATIONS

Inadequate Controls Over Environmental Specialists
Violations of departmental policies and procedures in regard to a former environmental specialist were noted. Two of 18 property files selected could not be located. Nine of 18 property files selected did not contain the required documentation. Three checks for fee payments were received by the former environmental specialist and were not receipted or deposited timely (page 25).

Inadequate Controls Over Golf Pro Shop Activities
Internal controls for the golf pro shop at Paris Landing State Park were inadequate. The noted deficiencies limited management and staff's ability to prevent and detect errors and irregularities in a timely manner in the ordinary course of their work. All three cashiers pled guilty to theft of property charges (page 28).

Inadequate Controls Over Marina Financial Transactions
Internal controls for financial transactions at the marina at Paris Landing State Park were inadequate. The noted deficiencies limited management's abilities to detect errors and irregularities in a timely manner in the ordinary course of their work. The marina supervisor resigned effective March 1, 2001 (page 30).

Property Losses, Possible Malfeasance, and Resolution of Investigations Not Reported to the Comptroller of the Treasury
The restaurant and inn manager at Paris Landing State Park did not take appropriate steps to ensure that the Comptroller's Office was informed of property losses, possible malfeasance, and resolution of investigations. As a result, the amount of money lost and the hours falsified could not be determined (page 33).

* This finding is repeated from the prior audit.
**This finding is repeated from prior audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Department of Environment and Conservation
For the Years Ended June 30, 1999, and June 30, 1998

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Department of Environment and Conservation
For the Years Ended June 30, 1999, and June 30, 1998

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Environment and Conservation. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The mission of the Department of Environment and Conservation is to promote, protect, and conserve the state's natural, cultural, recreational, and historical resources for the benefit of Tennesseans and visitors. The commissioner and his staff are supported by four sections: Administrative Services, Conservation, Environment, and Tennessee State Parks.

Administrative Services provides overall policy management, legal assistance, and support services to all areas of the department. Overall support services include environmental policy, fiscal services, human resources, information systems, internal audit, legal, and public information.

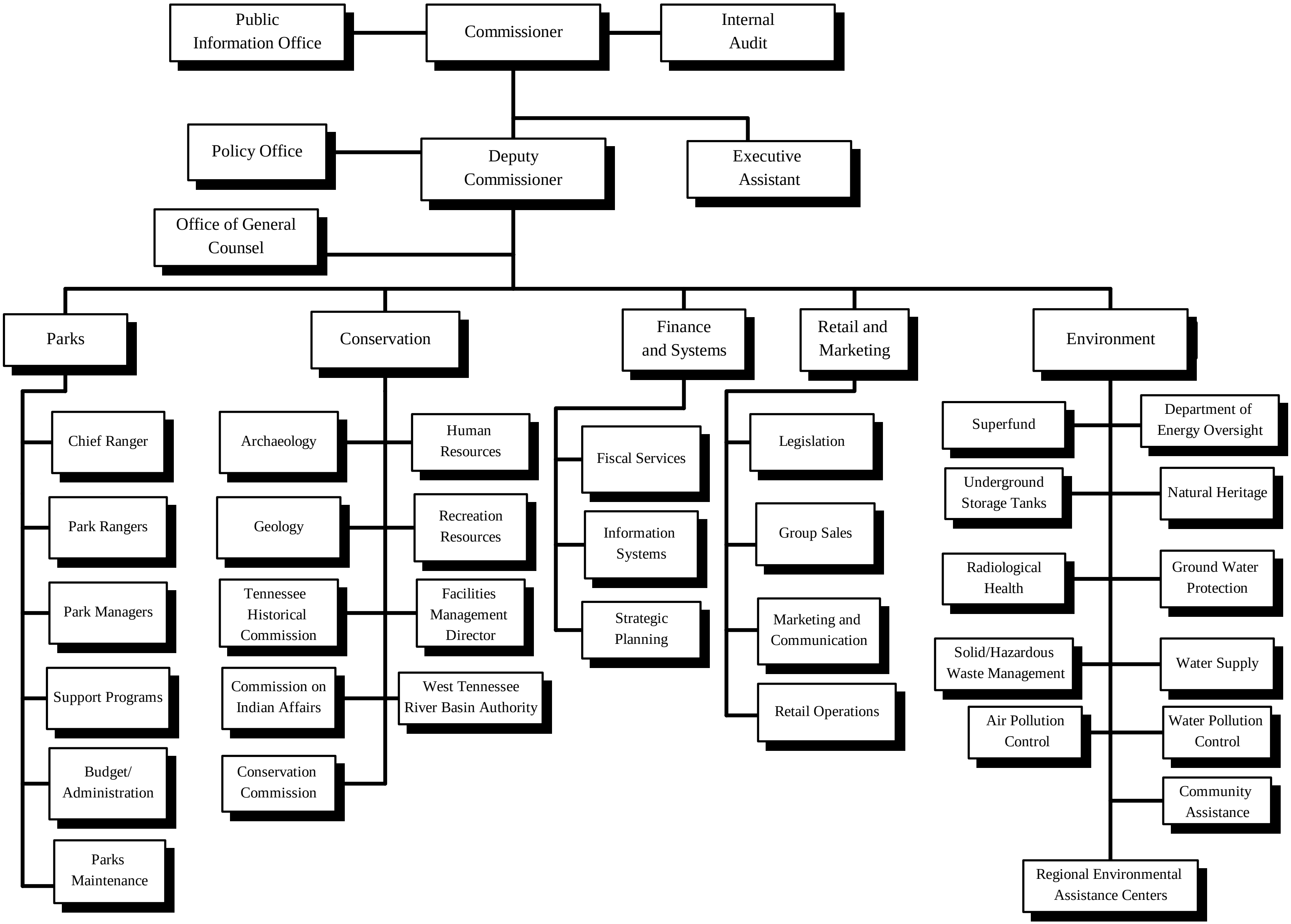
Conservation works to identify and preserve significant historical and archaeological sites, as well as natural resources. Some of this section's responsibilities are publishing *The Tennessee Conservationist* magazine, maintaining state-owned historical sites, providing grants to local governments for the acquisition and development of public outdoor recreation areas, and providing aid and technical assistance to Tennessee's Native American population.

Environment is responsible for preserving and enhancing the state's environmental resources and for ensuring compliance with state and federal regulations.

Tennessee State Parks manages the system of resort, rustic, and recreational parks and natural, historical, and archaeological areas. State parks maintenance provides a systematic approach to constructing, inventorying, and maintaining all facilities managed by the department.

An organization chart of the department is on the following page.

Department of Environment and Conservation
ORGANIZATION CHART



AUDIT SCOPE

We have audited the Department of Environment and Conservation for the period July 1, 1997, through June 30, 1999. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the following areas: state parks, citizen support organizations, equipment, the public relations contract, fee collections in the environmental divisions, the Division of Underground Storage Tanks, the Division of Water Pollution Control, the Solid Waste Assistance Fund, the Financial Integrity Act, Department of Finance and Administration Policies 16 *(Employee Housing and Meals)* and 18 *(Journal Vouchers – Type J)*, Title VI of the Civil Rights Act of 1964, and Title IX of the Education Amendments of 1972. The audit was conducted in accordance with generally accepted government auditing standards. In addition, two special investigations involving the department were conducted by staff of the Division of State Audit. The results of these investigations are discussed in the Special Investigations section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

STATE PARKS

We reviewed with park administration at the central office in Nashville various controls and reports used to manage the state parks. We performed analytical procedures on park accounting data and obtained an understanding of state park procedures through a review of park policies and procedures. We also tested a nonstatistical sample of park expenditures that were charged to maintenance, professional and administration, and supplies to determine if they were proper. We selected four parks to visit: Paris Landing State Park, Roan Mountain State Park, Bicentennial Mall State Park, and Radnor Lake State Natural Area. For those parks, we obtained and reviewed the profit and loss reports prepared by the State Parks central office to analyze individual park performance. Analytical comparisons of expenditure accounts between years for the parks were performed, and explanations for significant variances were obtained. We reviewed the most recent internal audit report of the parks to determine if additional audit steps needed to be added. Following this overview, we visited the parks and performed detailed testwork on cash receipts, lease agreements between the parks and vendors, inventories, expenditures, personnel policies, and state vehicle usage.

The objectives of our cash receipts work at the state parks were to determine whether

- undeposited cash receipts and petty cash funds were adequately safeguarded;
- escrow receipts were properly accounted for;

- controls over accounts receivable were adequate;
- cash receipting procedures and controls were adequate;
- proper rental fees were collected for rooms and/or cabins;
- rental and/or usage fees were adequately displayed and correctly charged; and
- void and credit card transactions were properly accounted for.

We obtained an understanding of internal controls over cash receipts and receivables through the completion of memos and questionnaires. We performed surprise counts of change funds and compared cash receipts to the daily sales reports and the deposit slips. We reviewed cash register tapes for evidence of excessive "no sale" rings and voids and proper handling of credit card transactions. We reviewed reservation books and several reservations requiring deposits. We compared escrow receipts with the retail operation report, the sales report for the day, and the deposit slip. We selected several days during the audit period and tested in detail all escrow receipts for those days. We reviewed cash receipts at the inns and cabins to determine if the proper rates were charged.

Based on our interviews, reviews, and testwork, we found that cash receipts were not adequately safeguarded, cash receipting procedures and controls were not adequate, and void and credit card transactions were not properly accounted for. These items are discussed in finding 1. In addition, a special investigation was conducted regarding cash receipting at Paris Landing State Park. The results of this investigation are discussed in findings 10 through 12. It appears that escrow receipts were properly accounted for, controls over accounts receivable were adequate, proper rental fees have been collected for rooms and/or cabins, and rental and/or usage fees were adequately displayed and correctly charged. In addition to the findings, minor weaknesses came to our attention which have been reported to management in a separate letter.

The objectives of our testwork on lease agreements were to determine whether the agreements complied with departmental polices and whether payments made by the lessees were proper. We reviewed the agreements and examined the supporting documentation for a sample of payments. It appears that the agreements were in compliance with departmental policies and that payments made by the lessees were proper. However, minor weaknesses came to our attention which have been reported to management in a separate letter.

The objectives of our testwork on inventories were to determine whether proper procedures were followed for safeguarding retail inventories and gasoline inventories. We gained an understanding of the procedures through the completion of memos and questionnaires. We also reviewed year-end retail inventory reports and a sample of monthly gasoline inventory reports. Minor weaknesses came to our attention which have been reported to management in a separate letter.

The objective of our expenditures testwork was to determine if there were proper controls over the processing of park purchases. We obtained listings of all purchase orders issued during the audit period and reviewed them for evidence of invoice splitting. We obtained an understanding of the procedures by completing an internal control questionnaire and questioning management about information on the purchase order listing. We concluded that invoices were being split to avoid the approval and bid requirements. This issue is discussed in finding 2. In addition to the finding, minor weaknesses came to our attention which have been reported to management in a separate letter.

The objective of our personnel testwork was to determine if departmental leave and attendance policies were being followed. We tested a nonstatistical sample of timesheets and leave requests. We determined that departmental leave and attendance policies were being followed. However, minor weaknesses came to our attention which have been reported to management in a separate letter.

The objective of our state vehicle testwork was to determine if usage of state vehicles by park personnel was proper and adequately documented. We interviewed park personnel about the controls and procedures related to state vehicles. We then either selected several vehicles or tested all of the vehicles assigned to the park, depending upon the number of vehicles. We examined the mileage logs for completeness, and compared reported mileage amounts with the current odometer readings. For the same vehicles, the miles-per-gallon computations, as reported on the monthly gasoline usage reports, were compared for a selected time period. We determined if the calculated usage appeared consistent and appropriate for the vehicle type and obtained explanations for any significant variances between months for the same vehicle. We concluded that state vehicle usage by park personnel was proper and adequately documented. However, minor weaknesses came to our attention which have been reported to management in a separate letter.

1. <u>Controls over cash receipts at the state parks are weak</u>

Finding

As noted in the prior two audits, the department does not have adequate controls over cash-receipting procedures at the state parks. In its response to the prior audit finding, management stated that it would "remind park personnel of those policies [*Fiscal Procedures Manual*] and stress the requirement to follow those policies." In spite of this, however, problems remain. The following weaknesses were noted at each of the parks visited:

Bicentennial Mall State Park, Nashville

- The cash receipts are not adequately safeguarded. The park manager, 13 park rangers, two gift shop clerks, and one account clerk have access to the gift shop safe in which all money is stored overnight.
- At the gift shop, a clerk is responsible for writing cash receipts, posting receipts to the accounting records, and preparing the deposit slips.
- At the gift shop, voids on the cash register tape were not properly authorized.

Paris Landing State Park, Buchanan

- The cash receipts are not adequately safeguarded at the park's office, inn, marina, and golf shop. The manager, four park rangers, and four clerks have access to the safe in the office. The two hospitality managers, the reservation manager, the restaurant manager, the hospitality assistant, the secretary, and four clerks have access to the safe in the inn. The harbormaster and two clerks have access to the marina safe. The golf course manager and two construction workers have access to the safe at the golf shop.
- A clerk at the park office writes receipts, posts the receipts to the accounting records, and prepares the deposit slips.
- A clerk at the golf pro-shop receives the cash, counts it, reconciles total receipts to the cash register tape at the end of the day, and prepares the retail operational report.
- A clerk at the marina receives cash, counts it, reconciles total receipts to the cash register tape at the end of the day, and prepares the retail operational report.
- At the golf shop and marina, credit card sales were not always identified on the cash registers.
- At the golf shop, there were numerous credit card sales that did not appear to have been rung up on the cash register.
- The managers at the golf pro-shop and marina are not reviewing or reconciling retail reports to cash received.
- Cash receipts from the snack bar at the golf shop were not deposited in a timely manner. In one instance, the golf shop had accumulated six days of snack bar receipts before delivering them to the inn for deposit. Additionally, no one was reconciling the snack bar inventory to the items sold.
- The restaurant did not follow proper procedures when a meal ticket had to be voided or when someone did not pay for a meal. The meal ticket was reused, and the unpaid meal was listed on the cash register as a void.

Roan Mountain State Park, Roan Mountain

- The cash receipts were not adequately safeguarded. All of the park's office staff have access to the safe.
- Cash register tape voids for cabin rental, swimming pool, and campground were not properly authorized.

Radnor Lake State Natural Area, Nashville

- The cash receipts are not properly safeguarded. All of the park's staff have access to the safe.

- At the park's gift shop, the same person receives cash, writes cash receipts, posts the receipt to the accounting records, and prepares the deposit slip. No one else reconciles the receipts to the deposit and the accounting records.

Recommendation

The assistant commissioner over state parks should train the park managers about proper internal control procedures. The park managers at all state parks should implement procedures to strengthen controls over cash receipts and should monitor compliance with these procedures. Duties should be segregated to the greatest extent possible. Management should frequently and independently review employees' work when adequate segregation is not practical. This management review should be documented. Any unusual or undocumented transactions should be thoroughly investigated and any indications of irregularities should be promptly reported to the next level of authority.

Management's Comment

We concur that during the audit period, cash receipt controls were weak. However, since that time management has reminded all park personnel of Chapters 2 and 44 of the department's *Fiscal Procedures Manual* which address all phases of cash receipts and vending machine operation. Management has stressed to its employees the requirement to follow those policies. Training on proper cash receipt internal controls will continue to be stressed as part of internal audits and as part of daily training provided to the individual parks.

Management is evaluating and limiting access to the safe containing cash receipts to only those employees whose access is critical to their job function. Additionally, steps have been taken to ensure that the combination to the safe is changed on a periodic basis and knowledge of the combination is strictly limited. Where park staffing allows, there will be a segregation of duties regarding depositing of funds; however, if adequate staffing is not available, management will institute other control measures including physical reviews by members of management.

Furthermore, we believe the installation of the new Hospitality Management System and Point of Sale Systems at the resort parks will strengthen cash receipting procedures at all points of sale at these parks.

2. <u>The state parks did not follow the state's purchasing policies and procedures</u>

Finding

The state parks did not always follow the state's purchasing policies and procedures for purchases greater than $400. The Department of General Services' *Purchasing Procedures Manual*, Section 11.7.4, states, "Agency shall obtain at least three (3) competitive bids to secure commodities or services over $400." When a purchase was greater than $400 (e.g., gift shop items), all four of the parks visited frequently split the invoice into purchase order amounts of not more than $400 to circumvent the approval and bid requirements. Interviews indicated that the park managers knew and approved of these purchases.

Failure to follow state purchasing policies could result in the park paying too much for a particular product or service or could result in purchases that upper management would have deemed unnecessary or inappropriate. When park management participates in actions that are improper, the control environment is weakened.

Recommendation

The assistant commissioner over state parks should stress to the park managers the importance of following state purchasing policies and monitor compliance with these policies.

Management's Comment

We concur that during the audit period, certain purchasing policies and procedures were weak. Management stressed to all park managers during the fall annual park managers' meeting the importance of following the purchasing procedures. Additional training is routinely made by three area administrative support personnel.

In the fall of 2000, expanded purchasing authority was given to state park restaurants, gift shops, and golf courses to allow those operations to take advantage of special purchasing opportunities. This expanded authority will allow the managers to continue to make prudent business purchasing decisions that previously were not technically in compliance with state purchasing rules. Before that authority was given, Department of General Services' and Comptroller's officials made presentations on proper purchasing procedures to parks administrative personnel. Finally, in March 2001, the department will send several members of its staff to purchasing training presented by General Services.

A letter of reprimand will be sent to any manager when proof of noncompliance is noted.

CITIZEN SUPPORT ORGANIZATIONS

In 1993, the Tennessee General Assembly passed legislation which officially sanctioned the organization of "citizen support organizations" to "maintain and enhance the purposes, programs and functions of the state park system, including, but not limited to, educational, interpretative and recreational functions."

Two citizen support organizations that had not been visited in prior audits—Friends of Cove Lake State Park and Friends of Norris Dam State Park—were reviewed. Our objectives were to review internal controls and procedures and determine whether

- cash receipts were properly accounted for and deposited timely;
- cash disbursements were adequately supported and properly approved;
- cash disbursements were made only to support the park's activities;
- equipment purchased could be located and was being used for park-related activities;
- activity in the organization's bank account could be reconciled to the financial reports;
- potential conflicts of interests are identified;
- the organizations are properly registered with the Secretary of State's office; and
- the terms of the agreement between the department and the organizations comply with applicable laws and regulations.

We obtained copies of the organizations' agreements with the Department of Environment and Conservation, lists of the organizations' officers, all bank statements and reconciliations for the last two years, minutes of all organization meetings, and supporting documentation for all receipts and disbursements. We reviewed the minutes of any meetings held during the two-year period. We interviewed officers of the organizations to gain an understanding of procedures and controls over cash receipts, cash disbursements, equipment, conflicts of interest, and compliance with applicable state laws and regulations. We reviewed all bank account activity and supporting documentation for receipts and disbursements shown on the bank accounts. We obtained bank confirmations as of December 31, 1999. We reconciled the information on the financial reports sent to the department with the records at the organizations. We reviewed the agreements with the department to determine if the terms complied with applicable state laws and regulations.

We concluded that the organizations need to improve controls over their financial activities. We believe these two support groups should review the audit report on other citizen support organizations issued by this office dated November 5, 1997, and implement the report's recommendations.

EQUIPMENT

The objectives of our work on equipment were to determine whether

- the information on the department's equipment listed in the Property of the State of Tennessee (POST) system is correct and complete;
- equipment leased from the Office for Information Resources (OIR) is being properly accounted for; and
- proper procedures were followed concerning lost or stolen equipment.

We interviewed personnel and completed an internal control questionnaire to gain an understanding of the procedures for adding, deleting, and updating equipment information in POST. We also discussed controls over purchasing, receiving, tagging, and safeguarding equipment with appropriate personnel at each of the state parks visited.

We selected a nonstatistical sample of equipment in POST costing at least $5,000 with a location code of Davidson County or the state parks visited by the auditors. These items were tested to determine whether the information in POST matched the information on the equipment and whether the cost information in POST for equipment purchased during the audit period agreed with the invoice. We then selected several items at the state parks to determine if the information on these items in POST was correct. We determined that the information in POST was not always correct. This issue is discussed in finding 3.

We obtained a listing of all equipment being leased from OIR with a location code of Davidson County or one of the parks being visited. We then determined if the information on the equipment matched the information on the listing. We concluded that the information matched; however, a minor weakness came to our attention and was reported to management in a separate letter.

We obtained listings of all equipment reported to our office as lost or stolen. There were 280 pieces of equipment reported lost or stolen during the audit period. Because of the large number, we decided to select a nonstatistical sample to determine whether the items were removed from POST timely. None of the sample items were removed from POST timely. This is discussed in finding 3. In addition to the finding, a minor weakness came to our attention and was reported to management in a separate letter.

3. <u>The department does not maintain proper accountability over its equipment</u>

Finding

During the audit period, the department reported to the Comptroller's office that 280 pieces of its equipment were lost or stolen. The total cost of the equipment could not be determined because this information was not available on all items. Of those that did have cost information, the total cost was $180,012. None of the 25 lost or stolen equipment items tested were removed from the Property of the State of Tennessee (POST) system within 30 days of the time that the item was reported missing or stolen.

Testwork was performed on 25 other equipment items which were listed as active in POST and cost at least $5,000 per item. Seventeen of the 25 items (68%) were not at the location shown in POST. Three of the 25 items (12%) had serial numbers that did not agree with the number shown in POST. Two of the 25 items (8%) did not have a state tag attached. One of the 25 items (4%) could not be found.

Of the 20 additional equipment items tested at the state parks visited, one (5%) did not have a state tag number and two (10%) had serial numbers that did not agree with the numbers shown in POST.

If equipment is not properly safeguarded, the risk increases that it will be lost or stolen.

Recommendation

The department should increase safeguards over equipment. In addition, internal audit should periodically select a sample of equipment and determine if all information in POST is correct and ensure that management is effectively monitoring compliance with the internal controls. Internal audit should report any findings to the commissioner.

Primary responsibility for safeguarding equipment rests with the park manager at the parks and the equivalent positions in nonpark locations. These individuals should take appropriate steps to monitor the effectiveness of the internal controls over equipment on a regular basis. These efforts should be documented, including any actions taken as a result of noncompliance with applicable policies.

Management's Comment

We concur that during the audit period the accountability over equipment was weak, and we share the concern about properly safeguarding the state's assets. Since the audit period, the department has been working on steps to improve the safeguarding of its equipment. Following the reporting of the items in question to the Comptroller, the Commissioner issued several memorandums to the staff stating the importance of properly accounting for the inventory items. The department now has an overall property officer and a person assigned in each division and park to track inventory. Furthermore, training sessions were held at the Administrative Service Conferences, and procedures are being written to ensure that equipment is properly accounted for.

It should be noted that not all of these equipment items were lost or stolen. However, state rules require the items to be reported as such to be removed from our inventory. We believe several pieces of this equipment were turned in or traded to Motor Vehicle Management, as the Equipment Revolving Fund was beginning, and the paperwork was either lost or never generated. A few of these items were found and reinstated in the POST inventory system. There were kitchen items at Henry Horton which were removed during a renovation in 1996. These items were disposed of but never taken off the inventory system. Some of these items had not been inventoried since 1986, but we continued to carry them on the inventory believing the items had been transferred to another park or division without the proper paperwork having been completed.

PUBLIC RELATIONS CONTRACT

Beginning in fiscal year 1998, the department contracted with a public relations firm to develop brochures and other forms of advertising to promote the state and various programs of the department. Our purpose in reviewing this contract was to determine whether

- the contract with the public relations firm was properly approved;
- the amount paid to the firm exceeded the maximum liability shown in the contract; and
- expenditures charged to the contract were adequately supported and complied with the terms of the contract.

We obtained an understanding of the controls in place by interviewing key personnel and determined that the controls were adequate. We obtained a listing of all expenditures paid to the public relations firm during the audit period and copies of the contract and all amendments. Using these, we determined that the contract was properly approved and that the amount paid to the firm did not exceed the maximum liability. We then selected for detailed testwork enough expenditures to account for 65% of the total expenditures for the audit period. These expenditures were adequately supported and complied with the terms of the contract.

ENVIRONMENTAL DIVISIONS

Internal Controls Over Fee Collections

As a follow-up to a prior audit finding, we reviewed the internal controls over the receipt of fees in these divisions. We interviewed personnel and completed flowcharts and internal control questionnaires to gain an understanding of the procedures and evaluate their adequacy. Our review resulted in finding 4. In addition to the finding, other minor weaknesses came to our attention which have been reported to management in a separate letter.

4. Controls over cash receipts in the environmental divisions are weak

Finding

As stated in the prior two audit reports, the department does not have adequate controls over cash-receipting procedures in the environmental divisions. Management concurred with the prior audit finding and stated that the commissioner had appointed a reengineering team to conduct a study of the fee collection process and recommend changes. The study recommended a centralized cash-receipting system for the central office. However, during the audit period, the recommendation had not been fully implemented and problems still existed.

In the divisions of Solid Waste Management, Hazardous Waste Management, Superfund, Radiological Health, Underground Storage Tanks, Air Pollution Control, Groundwater

Protection, Water Supply, and the Dry Cleaners' Environmental Response Fund, no one reconciles the amounts on the bank deposits to the payments shown in the divisions' ledgers or spreadsheets, other than the person who enters the receipt information into these ledgers or spreadsheets.

In addition, in the Division of Air Pollution Control and the Dry Cleaners' Environmental Response Fund, no one reconciles the listing of checks received to the bank deposit.

If these reviews are not performed, errors or irregularities could occur and go undetected.

Recommendation

The directors of the divisions mentioned above should ensure that all entries in the fee ledgers and spreadsheets are reconciled to the bank deposits by someone other than the person who enters the information. Also, the listing of checks received should be reconciled to the bank deposit.

Management's Comment

We concur that during the audit period, certain cash receipting controls were weak. However, since that time a consolidated fee section has been organized in the Division of Fiscal Services which will strengthen the controls over cash receipting. This group is trained in internal controls over cash-receipting procedures. Reconciliations of monies deposited to divisions' ledgers, spreadsheets, or databases are performed by other members of the fee section. Additionally, all bank deposits are reviewed and reconciled to the listing of checks received by other members of the fee section before the deposit goes to the bank.

Division of Underground Storage Tanks

The primary functions of this division are to inspect new tank installations and to investigate and oversee the cleanup of leaking petroleum underground storage tanks.

The division's rules and regulations require owners or operators of petroleum underground storage tanks to demonstrate that they are financially able to correct accidental releases and to compensate third parties for bodily injury and property damage caused by the releases.

An owner or operator can demonstrate financial responsibility by participating in the department's Underground Storage Tank Fund, by meeting a financial test of self-insurance, or by using one of the other forms of financial assurance allowed by the U.S. Environmental Protection Agency, provided the owner or operator obtains the approval of the division for the alternate form of financial responsibility.

Underground Storage Tank Fund

The purpose of this fund is to provide tank owners or operators a method of reducing the risk of personal liability for environmental cleanup costs associated with leaks from or the removal of underground storage tanks. All tank owners or operators can become eligible to participate in the fund, although participation is not mandatory.

Fund revenues come from a $0.004 per gallon tax on all gas imported into the state and from annual tank fees paid by tank owners or operators. Fund expenditures are payments to participating tank owners or contractors overseeing the site cleanups.

The objectives of our review of this fund were to determine whether

- management has procedures in place which ensure that tank owners or operators demonstrate financial responsibility;
- management has procedures in place which ensure that cleanup work is only performed by qualified Corrective Action Contractors (CACs) and testing labs;
- management has procedures in place which ensure that all cleanup work done by CACs is satisfactory and that the amount billed for this work is accurate; and
- cleanup expenditures were approved, properly documented, recorded correctly, paid timely, and complied with applicable regulations.

To accomplish our objectives, we obtained an organization chart of the division and reviewed the applicable laws and regulations. We interviewed key personnel in the division and reviewed supporting documentation to gain an understanding of the division’s procedures. We also tested a nonstatistical sample of reimbursement requests from CACs for cleanup expenditures.

We determined that there are no procedures in place which ensure that tank owners or operators demonstrate financial responsibility. This is discussed in finding 5. We concluded that procedures are in place to ensure that only qualified contractors perform cleanup work. We also concluded that cleanup expenditures were approved, properly documented, recorded correctly, and complied with applicable regulations. However, we determined that some of the labs used had not been approved by the division, the division does not routinely inspect cleanup sites or perform field audits of the contractor’s invoices, there was not always a cleanup agreement on file between the site owner and the contractor, and payments to contractors were not always made timely. This is discussed in finding 6.

In addition to the findings, other minor weaknesses came to our attention which have been reported to management in a separate letter.

5. <u>The Division of Underground Storage Tanks does not enforce the rules regarding financial responsibility</u>

Finding

As noted in the prior audit, the Division of Underground Storage Tanks does not ensure that owners or operators of petroleum underground storage tanks demonstrate financial responsibility. *Rules and Regulations of the State of Tennessee*, "Underground Storage Tank Program," Chapter 1200-1-15-.08(4)(a), states:

> Owners or operators of petroleum underground storage tanks shall demonstrate financial responsibility for taking corrective action and for compensating third parties for bodily injury and property damage caused by accidental releases arising from the operation of petroleum underground storage tanks.

The division's enforcement and compliance section performs on-site inspections to determine whether the owners or operators are complying with the department's rules concerning areas such as installation and leak detection. These inspections include the review of various documents to ensure compliance but do not include verification of the owner's or operator's compliance with the financial responsibility requirements, even though such documents are required to be kept on site. Chapter 1200-1-15-.08(9)(a) states:

> Owners or operators shall maintain evidence of all financial assurance mechanisms used to demonstrate financial responsibility under this rule for an underground storage tank. . . . An owner or operator shall maintain such evidence at the underground storage tank site or the owner's or operator's place of business. Records maintained off-site shall be made available upon request of the Department.

For 21 of 22 owners or operators reviewed, there was no documentation on file to indicate that the department had determined compliance with the financial responsibility rules.

In its response to the prior audit finding, management concurred and stated that it was "currently developing procedures to ensure that all owners or operators of petroleum underground storage tanks in operation after the December 22, 1998, tank upgrade are in compliance with the financial responsibility regulations as promulgated by the Underground Storage Tank Board." However, these procedures have not been completed.

Recommendation

The director of the division should promptly establish procedures that require staff to routinely review the owner's or operator's evidence of financial responsibility and monitor compliance with these procedures.

Management's Comment

We concur that more could have been done during the audit period to enforce financial responsibility rules. Since the audit period, the department has taken the following steps to ensure that financial responsibility is evident:

a. Owners/operators who are eligible to participate in the Tennessee Underground Storage Tank Fund (State Fund), fully comply with the federal financial assurance requirements for both corrective action and third party damages except for a small deductible. The division had to prioritize its enforcement cases and is addressing environmental problems first. On or about September 1, 2001, the division will have a contract in place that will allow us to take corrective action at a site if the owner/operator is unable or unwilling to comply. The division will then cost recover the deductible from the tank owner/operator. The division intends to propose a rule change in 2001 to eliminate the requirement that fund eligible owners/operators of petroleum underground storage tanks submit a separate financial instrument covering the deductible amount.

b. To address those owners/operators of underground storage tanks who are not fund eligible and have not submitted alternative financial assurance, the division is mailing Notice of Violation (NOV) letters along with copies of the Certification of Financial Responsibility Forms. A new database has been developed to track deadlines for compliance with financial responsibility requirements for those owners/operators who have sent the NOV letters. The division is in the process of drafting a Request for Delegation of Authority for issuing Director's Orders for financial responsibility violations. Also, the division is in the process of developing a Director's Order template for violations involving financial responsibility requirements. The division plans to issue the first orders for financial responsibility by March 31, 2001.

6. Controls over Underground Storage Tank Fund expenditures are inadequate

Finding

As noted in the prior audit, the Division of Underground Storage Tanks does not routinely inspect cleanup sites or perform field audits of the contractor's invoices. In its response to the prior audit finding, management stated:

> The division will work to develop a written policy and procedure manual for routinely monitoring Corrective Action Contractors' fieldwork and for auditing the invoices that accompany claims for payment of expenses associated with those jobs. The department will consider increasing the internal audit staff as budget constraints allow.

However, this manual has not yet been developed, and problems persist. Once an underground storage tank has leaked fuel and cleanup has begun, no one in the division ensures that the contractor is billing only for cleanup activities actually performed. The division does have a set of reimbursement rates which lists the maximum amount that the division will pay for particular cleanup tasks, types of equipment and supplies, and types of professionals used in the cleanup effort. The division compares these rates to the accompanying information sent by the owners with each request for payment. Still, some inflation of costs could occur and go undetected.

Site owners must sign off on contractor invoices submitted for payment, but they may not have the technical ability necessary to know and thus to provide assurance that the contractor is adequately cleaning up the site or that the contractor's invoices to the department are correct. Although the contractor submits progress reports of the cleanup to the department's local field office, no routine on-site inspections are performed during or after the cleanup. Any on-site visits are performed at the discretion of the local field office.

Since division personnel do not routinely go on site, the department does not have adequate assurance that goods or services have been received prior to making payment. The director of the division indicated that there were insufficient personnel in the field offices to perform these inspections.

Also, testwork on a sample of 25 reimbursement requests revealed the following weaknesses:

- Twenty-three of the payments were not made within 45 days of receipt of the request in the division office as indicated by the Prompt Pay Act of 1985. The payments averaged 150 days after receipt.
- Four of the requests were for services performed more than one year prior to the date the request was received. Chapter 1200-1-15-.09(13)(f) of the *Rules and Regulations of the State of Tennessee* states that "an application for payment shall be received within one year from the date of performance or acceptance of the work in order to be eligible for payments from the Fund."
- For three of the reimbursements tested, there was no cleanup agreement on file between the site owner and the Corrective Action Contractor.
- Two of the nine labs used by the Corrective Action Contractors had not been approved by the division.

Untimely payment of requests defeats the purpose of the program, which is to help tank owners pay the cost of a cleanup. Untimely requests for payment are more likely to contain errors. The lack of an agreement between the site owner and the Corrective Action Contractor could expose all parties to more liability and a greater likelihood of lawsuits. The use of unapproved labs could invalidate any water quality tests and slow down the cleanup effort.

Recommendation

The director of the division should develop written policies and procedures for routinely monitoring cleanup sites and processing and auditing contractors' invoices.

Management's Comment

We concur that during the audit period, certain controls over fund expenditures did not meet the level of review recommended in the audit. Budget constraints have slowed our oversight improvements but we have made two improvements to the program.

a. On July 1, 2000, the Division of Underground Storage Tanks instituted an inspection program to collect information at select sites where release investigations and corrective actions are ongoing. The information collected includes quality assurance/quality control of the contractors procedures, documentation of types and quantities of materials used including personnel, and an accounting of capital equipment including monitoring wells. This information is then available to the central office auditors for comparison with invoices submitted for the site. At any time, the reimbursement section can request an inspection to ascertain information to verify the accuracy of a claim.

b. In September 2000, a select group was assembled to evaluate the reimbursement process and make recommendations to streamline it and ensure more timely payment of claims, while reducing a contractor's ability to deviate from recognized and accepted norms. The reimbursement process is being aligned with the investigation and remediation process by establishing a system of clearly defined sequential tasks that the contractor will perform. Each task will have a recognized norm for acceptability which division auditors will compare against the claim. Keeping a contractor's work and coinciding claims together in discrete tasks will prevent inclusion of extraneous charges and should allow for a more consistent and timely review. Additionally, a system to file claims electronically will accompany the tasks. This will prevent submission of claims exceeding reimbursable rates, ensure accurate calculation of the claims, and minimize the amount of time necessary for auditors to verify the claims. It will also assist in building a database of claim information that can be queried to produce exception reports.

Division of Water Pollution Control

This division is responsible for monitoring the water quality of the state's 54 watersheds. Our audit focused on expenditures charged to professional and administrative and to grants and subsidies. Our objectives were to determine whether there was proper documentation supporting these expenditures and whether they complied with applicable laws and regulations.

We obtained a current organization chart and reviewed the provisions of the Tenneessee Water Quality Control Act of 1977. We reviewed with key personnel the controls in place which ensure that only allowable expenditures are made. We then tested a nonstatistical sample of expenditures charged to professional and administrative and to grants and subsidies. We concluded that there was proper documentation supporting these expenditures, and the expenditures complied with applicable laws and regulations.

We also followed up on a prior audit finding on procedures for collecting delinquent accounts. Our testwork consisted of interviewing the division director and other division personnel about the procedures in place, as well as determining if the procedures followed on accounts that became delinquent during the audit period were adequate. We concluded that the procedures for delinquent accounts were not adequate. As a result, we have repeated the audit finding.

7. <u>The Division of Water Pollution Control did not follow procedures for delinquent accounts</u>

Finding

As stated in the two prior audit reports, the Division of Water Pollution Control did not exert sufficient effort to collect delinquent permit fees. In its response to the prior audit finding, management concurred and stated progress had been made; however, problems persist.

Eleven of the 171 accounts which became delinquent after July 1, 1997, were tested.

- Six of the accounts were not given to the Office of General Counsel for necessary legal action as required.
- Nine of the accounts should have been sent a demand letter because the business had not paid the second invoice within 30 days. However, seven had not been sent the letter, and the other two letters were sent late, 119 and 238 days, respectively.
- Eight of the accounts should have been sent a second invoice because the first had not been paid within 45 days. In one instance, this had not been done. The payment on the first invoice was due on January 31, 2000.

Chapter 1 of the department's Environmental Protection Fund Late Payment Penalty and Interest policy states,

> If after thirty days since the second notice was sent and the applicant still has not paid the fee, penalty and interest, then the division sends a Request for Legal Action (CN-0929) and documentation supporting all collection efforts to the Division of Fiscal Services (DFS).

The policy does not state when the second notice should be sent. Normally, the department sends the second notice 30 days after the payment was due.

When the established written departmental policies and procedures for handling delinquent accounts are not followed, chances of collection greatly decrease and revenue is lost. The lack of deadlines for each step in the collection process results in inconsistent application of the procedures.

Recommendation

The Director of the Division of Water Pollution Control should ensure employees follow the established written departmental policies and procedures for delinquent accounts. Permit holders should be notified of unpaid annual maintenance fees in a timely manner. The procedures should list each deadline in the collection process.

Management's Comment

We concur that during the audit period, certain procedures were not followed. However, since that time improvements have been made to the invoicing and tracking system and the consolidated fee section. These improvements to the procedures for delinquent accounts will continue to be enhanced, and the nonrespondent accounts will be addressed in a timely manner

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Solid Waste Assistance Fund

This fund provides financial assistance and special statewide services to local governments to ensure their compliance with the Solid Waste Management Act. This act established a comprehensive solid waste management system to help communities plan for future waste disposal needs.

Our audit focused on expenditures charged to grants and subsidies and had the following objectives:

- to determine whether management controls in this area were adequate; and
- to determine whether expenditures were adequately documented, properly approved, and in compliance with applicable laws and regulations.

We interviewed key personnel to gain an understanding of management controls, reviewed applicable state laws and regulations, and tested a nonstatistical sample of expenditures charged to grants and subsidies. We determined that management controls over the fund were adequate and that expenditures were adequately documented, properly approved, and in compliance with applicable laws and regulations.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999, and each year thereafter. In addition, the head of each executive agency is also required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

The objectives of our review of the department's compliance with the Financial Integrity Act were to determine whether

- the department's June 30, 1999, responsibility letter and December 31, 1999, internal accounting and administrative control report were filed in compliance with the Financial Integrity Act of 1983;
- documentation to support the department's evaluation of its internal accounting and administrative control was properly maintained;
- procedures used in compiling information for the internal accounting and administrative control report were adequate; and
- corrective actions have been implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the report to gain an understanding of the department's procedures. We also reviewed the supporting documentation for these procedures and the June 30, 1999, responsibility letter and December 31, 1999, internal accounting and administrative control report submitted to the Comptroller of the Treasury and to the Department of Finance and Administration.

We determined that the Financial Integrity Act responsibility letter and internal accounting and administrative control report were submitted on time and that support for the internal accounting and administrative control report was adequate.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICIES

Policy 16 – *Employee Housing and Meals*

The department has many employees working at parks around the state who need to live at or near the park to be able to respond to emergencies. If possible, the department places the employees in state-owned housing within the park. If this is not possible, the employees are asked to live as close as possible to the park and are paid a housing allowance.

The Department of Finance and Administration issued Policy 16 on January 30, 1998, to establish guidelines which ensure compliance with applicable state and federal laws, particularly Internal Revenue Code requirements, governing all housing and meals provided to all officials and employees and to provide a uniform policy addressing all state-owned housing. Because of the number of employees at the department who are subject to the requirements of this policy, we decided to perform testwork to determine if the department was complying with the policy's requirements.

We reviewed the policy to obtain an understanding of its requirements. We obtained copies of the department's housing plan and procedures. We contacted the Department of Finance and Administration (F&A) to determine whether the department had submitted its housing plan and procedures to F&A by the deadline set forth in the policy and had obtained F&A approval. We reviewed a nonstatistical sample of personnel files to determine if the forms required by Policy 16 were on file. We also reviewed the payroll registers to determine if the information on the housing plan was correct and to determine if any employee was receiving both a housing allowance and state housing. Our review indicated that the department did not always comply with Policy 16, as discussed in finding 8. In addition to the finding, other minor weaknesses came to our attention which have been reported to management in a separate letter.

8. <u>The department has not complied with state policy on providing housing to employees</u>

Finding

On January 30, 1998, the Department of Finance and Administration issued Policy 16, *Employee Housing and Meals.* This policy was issued to ensure compliance with state and federal laws governing all housing and meals provided to all officials and employees and to provide a uniform policy addressing all state-owned housing.

Paragraph 4 of the policy states that "All agencies and departments of the State that provide maintenance for State officials or employees shall submit a plan and develop procedures for the provision of employee maintenance in accordance with the Criteria established in this Statement." Paragraph 5 of the policy states that "Departmental housing plans and procedures shall be on file with the Department of Finance and Administration. . . ." Three employees were incorrectly shown on the housing plan as living in state housing when, in fact, they were receiving a housing allowance instead. Two employees were listed as receiving a housing allowance when they did not. Four employees were living in state housing but were not shown on the housing plan. One employee was receiving a housing allowance but was not shown on the housing plan.

Paragraph 14 of the policy states that "Under no circumstances shall an employee receive a Housing Allowance while living in state-owned housing." In one instance, an employee lived in a house belonging to the Tennessee Wildlife Resources Agency (TWRA) from January 1997 until his retirement in March 2000 and was also paid a housing allowance of $410 per month for the entire time. This employee was listed on the department's housing plan as receiving a housing allowance only. TWRA's housing plan did not list this employee at all.

Paragraph 13 of the policy states that "To be eligible for a Housing Allowance, the employee must have job responsibilities that vary from his/her regular work schedule and by necessity must live in close proximity of the state agency, department, or institution." In one instance, an employee who is assigned to the Nashville central office has been receiving a housing allowance of $410 per month, since he was reassigned to the Nashville office on July 1, 1995. At that time, his job duties no longer required him to live near a particular state park. Department personnel indicated that the employee continued to receive a housing allowance in lieu of a raise. This is the employee mentioned above who was not listed on the department's housing plan.

Paragraph 7 of the policy states that "All employees meeting Criteria #2 [the employee is required to accept lodging on the business premises as a condition of employment] . . . will be required to complete Attachment A – Employee Housing Disclosure form." Paragraph 8 requires all employees living in state-owned housing to read and sign Attachment B – Lease Agreement. Four employees were living in state housing and had not completed these forms, because they were seasonal employees. These are the employees mentioned above who were living in state housing but were not listed on the housing plan.

If the department does not keep an accurate listing of the status of its employees, the probability increases that errors and fraud could occur and go undetected. In addition, IRS regulations and F&A Policy 16 would not be followed. Department personnel indicated that a person will continue to receive a housing allowance until that person notifies the central office that the allowance is no longer appropriate.

Recommendation

The assistant commissioner over state parks should develop a process which automatically alerts the appropriate staff to discontinue housing allowance payments or to order employees to vacate state housing when an individual's job responsibilities change so that he is no longer qualified for the allowance or housing. They should regularly also match housing allowance payments with data on employees living in state housing. The department should seek reimbursement from the employees who were overpaid.

Every employee living in state-owned housing should immediately sign the forms required by Policy 16.

The assistant commissioner should require central office and state park personnel to review the accuracy of the housing plan.

Management's Comment

We concur that during the audit period, certain housing policies were not complied with. However, during calendar year 2000, management instituted a procedure to insure the department's housing policy and Finance and Administration Policy 16 are adhered to. Personnel in state parks now have the direct responsibility of updating housing status as any job responsibility changes that would effect housing or housing supplements. Only the Assistant Commissioner of State Parks can initiate the process for an employee to obtain a housing supplement. All forms are now properly completed, signed by the proper person, and maintained.

Policy 18 – *Journal Vouchers–Type J*

Policy 18 establishes billing and paying guidelines for Type J journal vouchers, which are used by state agencies and departments to bill each other for services. Our objective was to determine if the department was complying with the requirements of this policy.

We reviewed the policy to obtain an understanding of its requirements and interviewed key personnel to determine the procedures in place to ensure compliance. We also tested a nonstatistical sample of Type J journal vouchers.

Based on our testwork, it appears that the department complied with Policy 18.

SPECIAL INVESTIGATIONS

SUBSURFACE SEWAGE DISPOSAL CERTIFICATIONS AND FEE COLLECTIONS IN HAMBLEN COUNTY

On September 11, 1997, the Division of State Audit was notified by the department's Director of Internal Audit of a potential malfeasance involving an environment specialist in the Division of Groundwater Protection. The internal auditors had received information that the environmental specialist had violated department policies and procedures and had possibly misappropriated fees she had apparently collected. This information was received from the environmental specialist's supervisor who, upon visiting the office of the environmental specialist, discovered two certifications for subsurface sewage disposal (SSD) systems without the applications and permits required of the developer or homeowner of the property. The supervisor also found three unnegotiated checks (made out to the State of Tennessee) on the specialist's desk that related to other disposal systems.

The objectives of our review were

- to determine whether the required applications, evaluations, permits, and certifications were properly issued and documented in the property files;
- to determine whether the proper fees relating to the property files had been collected; and

- to report any findings to the department and recommend appropriate actions to correct any noted deficiencies.

We interviewed key department personnel and reviewed the property files the environmental specialist was working on before she resigned in October 1997 to take a position with the Department of Health in Sevier County. A matching of the fees associated with the SSD systems in these files with revenues collected was also conducted.

Based on our testwork, it appeared that all fees associated with the SSD systems were properly collected. However, weaknesses in internal controls within the Division of Groundwater Protection were noted.

9. <u>Internal controls over enviromental specialists are inadequate</u>

Finding

The following violations of department policies and procedures in regard to a former environmental specialist were noted:

- Two of 18 property files selected (11%) could not be located. The $1,240 in fees associated with these two properties were properly receipted. The former environmental specialist stated that she may have lost these files because she often kept property files at her residence.

- Nine of 18 property files selected (50%) did not contain the required documentation. These files were missing the application, the soil map application, or the permit. The former environmental specialist stated that she may have lost these documents. (Although these documents were missing, state auditors were able to determine that all fees related to the systems installed were properly collected. However, because property files were missing documentation, the department had to perform reinspections of subsystems and soil at the respective properties.)

- Three checks for fee payments associated with SSD systems were received by the former environmental specialist. In addition to violating the department policy prohibiting specialists from accepting or handling fees, the fee payments were not receipted by the specialist and consequently the fees were not deposited in a timely manner. According to the former environmental specialist, she did not specifically recall handling or having received the checks. She stated that the checks and associated paperwork may have been placed on her desk by the contractor or real estate agent in her absence.

Recommendation

Management should implement controls that would provide reasonable assurance that cash receipts from fees equal the applications and permits issued, and that all relevant documentation is present in each file.

Management should adequately monitor the activities of environmental specialists to ensure that they are adhering to department policies and procedures.

Management's Comment

We concur that during the audit period controls were weak allowing one environmental specialist to circumvent certain rules and not maintain adequate support documentation. As noted in the audit, the employee responsible for the discrepancies outlined in the report resigned in October 1997, and the department has since completed its installation of the consolidated fee collection section. We believe the fee consolidation will improve internal controls over the cash receipting activities for this division. Should the division receive a check directly, a check log is prepared, and the log and the checks are hand delivered to the fee collection section.

With respect to improvements suggested due to the actions of the former employee, the following corrective actions will be instituted. The division management has reviewed procedures with all Field Office Managers to ensure that the proper documentation is included in files, reminded employees that files are not to be kept in personal residences, and informed the environmental specialist staff that they are under no circumstances to accept monies. Management will continue to monitor this situation via quality assurance/quality control. In addition, the division is researching the possibility of collecting all fees from all locations through the environmental assistance centers or the central office in conjunction with the Fee Collection System.

PARIS LANDING STATE PARK

On March 1, 2000, the Financial and Compliance Section of the Division of State Audit notified the Investigative Section of the potential theft of cash register funds by cashier staff at Paris Landing State Park. The Financial and Compliance Section's earlier analysis of park revenues had revealed a significant discrepancy while reconciling credit card transaction slips with the cash register tape for the golf pro shop and marina. The auditors found that cashiers were apparently substituting credit card transaction slips for cash in the golf pro shop and marina. In addition to the apparent improper credit card transactions, the auditors found that the hospitality manager 3 failed to report a different theft of funds allegation to the department's internal audit section. Failing to report the allegation upward through the proper chain of command prevented the information from reaching the Comptroller of the Treasury, thereby violating state statute. Furthermore, it was alleged that the hospitality manager 3 provided catering services to private organizations using state resources without performing cost benefit analyses.

The objectives of our review were

- to examine cash register transactions to determine, through matching credit card slips from the credit card machine to cash register tapes, whether all sales had been recorded on the cash register tapes for the golf pro shop;
- to examine cash register transactions to determine, through matching credit card slips from the credit card machine to cash register tapes, whether all sales had been recorded on the cash register tapes for the marina;
- to determine which cashiers were responsible for improper activities by conducting interviews and matching cashiers' work schedules, attendance records, timecards, and daily operational reports to credit card transaction times;
- to evaluate the internal controls over funds to determine whether they were adequate;
- to determine if the hospitality manager 3 failed to report allegations of property losses, possible malfeasance, and the findings of an in-house investigation to appropriate department officials;
- to determine if the hospitality manager 3 provided catering services to private organizations without performing cost benefit analyses;
- to refer any findings to the Office of the Attorney General and the District Attorney General; and
- to report any findings to the department and recommend appropriate actions to correct any noted deficiencies.

The review included an examination of relevant documents and interviews with the golf course and marina staff, supervisory staff, and management personnel.

Based on our review of relevant documents and interviews with park staff, former golf pro shop cashiers misappropriated at least $24,178.62 from the golf pro shop cash register during the period January 1, 1998, through March 7, 2000. The misappropriation involved a substitution of cash for credit card sales not recorded on the cash register, cash transactions later voided, and items sold that were recorded as "no sales." These misappropriations totaled $15,978.62, $100, and $8,100 respectively. Additionally, based on our review of relevant documents from the same time period, it appears that at least $2,822.08 was misappropriated from the marina cash register. Our review also disclosed that the hospitality manager 3 failed to report a different theft of funds and falsified timesheets by a former snack bar cashier to the appropriate personnel for the department. Finally, the hospitality manager 3 provided catering services to at least three private organizations outside the state park without performing cost benefit analyses. The issues concerning verbal authorization and profitability of catering services are still under review. All the issues above will be addressed in a subsequent Special Report.

10. <u>Internal controls over golf pro shop activities were inadequate</u>

Finding

Internal controls for the golf pro shop at the Paris Landing State Park were inadequate. The noted deficiencies limited management and staff's ability to prevent and detect errors and irregularities in a timely manner in the ordinary course of their work. A lack of internal controls was noted in the following areas:

- Cashiers closing the cash register at the end of the first shift were unsupervised. The cash register was not closed and receipts were not reconciled with cash register tapes when the cashier left from the second shift. Cashiers' duties were not segregated. Three cashiers admitted taking overages after closing the cash register. Based on our review of relevant documents including cash register tapes, credit card slips, and cashiers' time cards, we determined that the first cashier we interviewed was on duty during 72 occurrences of unrecorded credit card transactions and was the closing cashier who reconciled daily sales on days when $2,691.58 in credit card transactions were not recorded on the cash register tape. The second cashier we interviewed was on duty during 180 occurrences of unrecorded credit card transactions and was the closing cashier who reconciled the daily sales on days when $10,302.47 in credit card transactions were not recorded on the cash register tape. The third cashier was on duty during 19 occurrences of unrecorded credit card transactions and was the closing cashier who reconciled the daily sales on days when $523.33 in credit card transactions were not recorded on the cash register tape. We also found an additional $2,461.24 in credit card sales that could not be attributed solely to one cashier. The failure of the cashiers to ring up credit card sales on the cash register created overages in the actual funds collected relative to the cash register tape. The cashiers misappropriated the overages, which effectively balanced the cash register tape with funds collected. Based on interviews with golf pro shop cashiers and review of relevant documents, it appears that the loss totaled at least $15,978.62.
- Voided transactions on the cash register were not documented or approved by management. One cashier admitted that he personally voided a $100 cash transaction and then took the money out of the cash register when he was alone at the end of the shift.
- The lack of detailed records of the pro shop's sales, which included merchandise, green fees, and cart rentals, prevented management from determining whether daily sales were appropriately recorded. The cash register used did not record specific details regarding items purchased, and the sign-in requirements for customers playing golf were not strictly enforced. In addition, the number of golfers that signed in to play was not reconciled to reported daily green fees and cart rentals. The same three cashiers all admitted that on several occasions they would not ring up the sale of items, typically green fees and cart rentals. The three cashiers admitted they retained the cash from these unrecorded transactions and their estimate of this theft totaled $8,100.

Because of the park's lack of reconciliation procedures, the cashiers' thefts were not detected.

- The golf pro shop's supervisor and cashiers, at the supervisor's request, falsified daily operational reports and recorded fictitious sales on the cash register. The supervisor stated that this process of creating fictitious sales was an attempt to correct a perceived $500 inventory shortage. The supervisor admitted that he improperly overstated what was sold to compensate for the perceived inventory shortage. The supervisor stated that while conducting the quarterly inventory of merchandise (beginning inventory less recorded sales equals ending inventory), he determined that the $500 shortage existed. The supervisor stated that therefore, instead of recording cash overages on the daily operational report, he would remove any excess cash overages from the first shift sales and then place the cash back into the cash register for the next shift and record fictitious sales of merchandise on the cash register. The supervisor admitted improperly creating fictitious sales and also instructing the cashiers to create fictitious sales in this manner until the $500 shortage was eliminated. The supervisor stated that he did not know why the inventory was short. This perceived shortage was likely created because actual merchandise was being sold but was not recorded as a sale on the cash register.

Because of the lack of internal controls, and disregard of proper credit card procedures, the pro golf shop lost revenue totaling at least $24,178.62.

Regarding the three cashiers responsible for this theft, two resigned and the third's employment was terminated. The annual leave balances for all three cashiers were forfeited. In addition, all three cashiers pled guilty to theft of property charges in Circuit Court, Twenty-Fourth Judicial District (Henry County). Furthermore, the pro shop supervisor, who admitted creating fictitious sales in order to cover up inventory shortages, received a written warning.

Recommendation

The Assistant Commissioner of State Parks should ensure written internal control procedures are developed for the operation of the golf course cash registers. The written procedures should be provided to the director of golf courses, all park managers, and golf pro shop supervisors. Cashiers should be supervised when they count the cash register funds, and the cash register should be closed and funds collected between shifts and after closing the golf pro shop. The Assistant Commissioner of State Parks should designate an individual from the park to supervise this process. Cashiers and others issuing voids or refunds should initial the cash register tape and retain the original cash register receipts. The staff should use prenumbered, duplicate vouchers for green fees sold and golf cart rentals, and reconcile the number of green fees and cart rentals to the sign-in sheet and to the cash register tape.

The director over golf pro shops, who is located in Nashville, should ensure a detailed inventory of golf pro shop merchandise is maintained with frequent comparisons of recorded inventory with physical inventory counts, and discrepancies between inventory amounts and sales recorded on the cash register should be properly documented and investigated immediately.

Management's Comment

We concur that during the audit period, internal controls were inadequate. However, we have since begun development and implementation of internal controls at the golf shop and have begun implementation of a new Point of Sale system at the golf shops. Furthermore, as reported in the audit report, the employees responsible for the noted malfeasance are no longer employed by the department and losses attributed to them have been recovered. We believe the new Point of Sale system and the internal controls being implemented will correct the deficiencies noted in the finding. Some of these internal controls are:

- The Point of Sale system generates void reports which are reviewed and approved daily by an appropriate manager at the golf shop. If there are discrepancies, the manager will review the necessary documentation.
- The Point of Sale system allows all golf rounds to be tracked electronically, and each customer is required to register prior to the start of their round.
- The Point of Sale system requires credit card sales to be rung directly into the cash register thereby eliminating the possibility of not recording a credit card sale. The credit card machine and the cash register are no longer separated.
- Inventory is done on a monthly basis with two people counting and documenting the count. After completion of the inventory count, the park office is notified and a Park Ranger dispatched to spot-count or check the entire inventory. All three parties are required to sign off on the inventory once the count and spot-check are completed.

11. Internal controls over marina financial transactions were inadequate

Finding

Internal controls for financial transactions at the marina at the Paris Landing State Park were inadequate. The noted deficiencies limited management's abilities to detect errors and irregularities in a timely manner in the ordinary course of their work. A lack of internal controls was noted in the following areas:

- Cashiers closing the cash register at the end of the first shift were unsupervised. The cash register was not closed and receipts were not reconciled with the cash register tapes when the cashier left from the second shift. Cashiers' duties were not segregated. On certain days, the marina cashiers, as well as the marina supervisor, operate the marina store alone. On these days, these individuals are solely responsible for opening the cash register and operating it throughout the day, closing out the cash register, counting the daily revenue, completing the daily operational reports, and transporting a bank bag containing the day's revenues to an office, which is located inside the park office.

- Credit card transactions from sales were not always recorded on cash register tapes, and cash was apparently misappropriated. Based on our review of the cash register tapes and daily operational reports, we found that 37 credit card transactions were not recorded on the cash register tape or the daily operational reports. In addition, the daily reports indicated that the total cash and credit card slips in the cash register drawer routinely equaled the amount of sales recorded on the cash register tape, although the tape did not include the credit card sales. Therefore, the amounts of the unrecorded credit card transactions should have been shown as overages but were apparently misappropriated instead. Further review of cash register tapes, credit card slips, and cashiers' time cards showed that the marina supervisor was solely responsible for funds not recorded and unaccounted for totaling $920.62 during the period January 1998 through March 2000. In a September 21, 2000, interview, the supervisor denied having misappropriated any funds from the marina but did not have any explanation for his reportedly balanced cash register although credit card transactions were not recorded. These unrecorded transactions were not added to cash register tapes or daily operational reports as the supervisor had incorrectly stated in an earlier interview. We also found an additional $1,901.46 in unrecorded credit card sales which could not be attributed solely to one cashier. Based on our review of relevant documents, it appears that a loss of at least $2,822.08 resulted from unrecorded credit card transactions in the park marina.

On October 19, 2000, we conducted a third interview with the marina supervisor. We showed him the seven documents relating to the unrecorded credit card transactions that occurred on days when he was the sole cashier at the marina. Although the amounts in question were odd amounts ranging from $29.20 to $387.34, the supervisor stated that these amounts were given as cash advances to the individual cardholders at the cardholders' request. (Cash advance is a process whereby a cardholder may use a credit card to obtain cash rather than using the credit card to purchase merchandise.) The supervisor's explanation of giving cash advances to customers is contradictory to his earlier statements in which he unequivocally stated that he had never given cash advances to any customers using credit cards. Furthermore, the process of giving cash advances to any person is not permitted at the park.

This review confirmed that one of the local credit card holders had not received a cash advance as the supervisor had incorrectly stated in the October 19, 2000, interview. Furthermore, if merchandise was being sold using credit card charges, but not recorded as a sale on the cash register, this activity would create an inventory shortage. On October 19, 2000, state auditors conducted an inventory count and determined that the marina's inventory was approximately $802.89 less than indicated on the perpetual inventory records. The marina supervisor resigned effective March 1, 2001, after other questions about the management of the marina were brought forward.

Recommendation

The Assistant Commissioner of State Parks should develop written internal control procedures to be followed for proper handling of the marina deposits. The written procedures should be provided to all the park and marina supervisors. The director over the park marina, who is located in Nashville, should take immediate action against the marina supervisor and take other actions to prevent further losses of state funds. Cashiers should be supervised when they count the cash register funds, and the cash register should be closed and funds collected between shifts and after closing the marina. The Assistant Commissioner of State Parks should designate an individual from the park to supervise this process. Cashiers and supervisors should ensure that all sales are rung up at the time of the sale instead of waiting until closing the cash register and then manually adding the amount to balance the cash register with the credit card machine. Any indication of misappropriation should prompt an immediate reaction from department officials.

The director over the park marina should ensure a detailed inventory of marina merchandise is maintained with frequent comparisons of recorded inventory with physical inventory counts, and discrepancies between inventory amounts and sales recorded on the cash register should be properly documented and investigated immediately.

Management's Comment

We concur that during the audit period, internal controls were inadequate. However, we have since begun development and implementation of internal controls at the marina and have begun implementation of a new Point of Sale system at the marina. Furthermore, the employee, while not admitting to any of the malfeasance noted in the audit, has resigned and is no longer employed by the department. We believe the new Point of Sale system and the internal controls being implemented will correct the deficiencies noted in the finding. Some of these internal controls are:

- The Point of Sale system generates void reports which are reviewed and approved daily by an appropriate manager at the marina. The daily sales from the marina are now handled at the park inn where balancing and review of daily sales is made by an appropriate member of management. If there are discrepancies, the manager will review the necessary documentation.
- The Point of Sale system requires credit card sales to be rung directly into the cash register thereby eliminating the possibility of not recording a credit card sale. The credit card machine and the cash register are no longer separated.
- Inventory is done on a monthly basis with two people counting and documenting the count. After completion of the inventory count, the park office is notified and a Park Ranger is dispatched to spot-count or check the entire inventory. All three parties are required to sign off on the inventory once the count and spot-check are completed.

12. <u>Property losses, possible malfeasance, and resolution of investigations were not reported to the Comptroller of the Treasury</u>

Finding

The restaurant and inn manager, hereinafter referred to as the hospitality manager 3, did not take appropriate steps to ensure that the Comptroller's Office was informed of property losses, possible malfeasance, and resolution of investigations. Section 8-19-501, *Tennessee Code Annotated,* states, "It is the duty of any official of any agency of the state having knowledge of shortages of moneys of the state, or unauthorized removal of state property, occasioned either by malfeasance or misfeasance in office of any state employee, to report the same immediately to the comptroller of the treasury."

- The snack bar is operated by restaurant staff and maintained by restaurant funds although its physical location is inside the golf pro shop. A former cashier of the snack bar misappropriated money from revenues collected by sales of items in the snack bar after the snack bar cashier closed the cash register at the end of the day. According to the hospitality manager 2, who is responsible for the snack bar operations, money collected for the purchase of snacks after the snack bar closed was collected by golf pro shop cashiers, put into plain white envelopes, and placed in the golf pro shop's safe overnight. The funds in the envelopes were then given to the snack bar cashier when her shift began the following morning. The golf pro shop supervisor stated that he had found empty envelopes in the trash can after he gave them to the snack bar cashier, and then reported the incident to his supervisor, the hospitality manager 2. The hospitality manager 2 stated that she advised her supervisor, the hospitality manager 3 at the time, in August 1999, and an in-house review of the matter was conducted by the hospitality manager 3, which is the most senior position for the park restaurant and inn inside the park facility. According to the hospitality manager 3, the snack bar cashier admitted to him that she had taken approximately $25 to $30 in cash from the white envelopes. The hospitality manager 3 stated that he did not report the matter to his supervisor, the director over retail operations who is located in Nashville, because he personally felt the amount of money taken by the snack bar cashier was immaterial. The allegation of theft of funds was not brought to the attention of our office until state auditors visited the park in February 2000.
- The former snack bar cashier also falsified time sheets in order to receive pay for hours she did not actually work. The golf pro shop supervisor stated that he directly observed the snack bar cashier enter false arrival and leaving times on her time sheets on several occasions. According to the hospitality manager 2, she advised her supervisor, the hospitality manager 3, at the time, and he conducted an in-house investigation on the matter. The hospitality manager 3 stated that he did not report the matter to the director over retail operations because he personally felt that the amount of time the snack bar cashier admitted falsifying on her time sheet was immaterial.

As a result of the hospitality manager 3's failure to promptly report the results of the in-house investigation to the department's internal audit section, the amount attributed to the loss of money from the sale of snacks after the snack bar closed and the total amount of hours she had falsified on her time sheets could not be determined. Furthermore, since we have been unable to interview her, we have been unable to provide her an opportunity to refute the charges and provide us with her impressions of the circumstances. Consequently, we have been unable to gain information she might have about other possible irregularities, which have not otherwise been identified at this point. According to the hospitality managers 2 and 3, the snack bar cashier moved out of the state after she resigned from the park. We have attempted to call the last known telephone number of the cashier. We have left three messages on the answering machine of the phone number we called, but no one has returned any of our telephone calls.

Recommendation

The Assistant Commissioner of State Parks should designate one individual to be responsible for immediate notification to the Comptroller of any shortages of state funds and indications of employee malfeasance. The hospitality manager 3 should, in order to prevent further theft of money at the snack bar, either close the snack bar completely after the cashier leaves for the day or keep the cashier on duty in the snack bar to run the cash register until the golf pro shop closes its daily operations.

Management's Comment

We concur. The Hospitality Manager 3 has been counseled on the importance of reporting instances of suspected employee malfeasance to the department immediately. Since the audit was completed the park has installed vending machines, so there are no longer sales after the snack bar has closed. As a further deterrent to malfeasance, signage has been placed at the park to instruct employees who believe malfeasance is occurring to report such directly to the department's Internal Audit Division or the Comptroller's Fraud Hotline.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Environment and Conservation filed its report with the Department of Audit on September 2, 1999. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the department has corrected previous audit findings about an employee not performing the duties associated with the position he was hired to fill and collection efforts for accounts receivable at the state parks. In addition, there were no significant problems related to gasoline inventory control noted at the parks that were visited; therefore, that finding was not repeated.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning weak controls over cash receipts at the state parks, weak controls over cash receipts in the environmental divisions, inadequate enforcement of financial responsibility rules in the Division of Underground Storage Tanks, inadequate controls over Underground Storage Tank Fund expenditures, and procedures not being followed for delinquent accounts in the Division of Water Pollution Control. These findings have not been resolved and are repeated in the applicable sections of this report.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Department of Environment and Conservation filed its compliance reports and implementation plans on June 30, 1999, and June 30, 1998.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans,* issued annually by the Comptroller of the Treasury.

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Tennessee Code Annotated, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The Department of Environment and Conservation has not filed a compliance report and implementation plan, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The failure to file a compliance report and implementation plan as required by state law does not necessarily mean that the Department of Environment and Conservation is not in compliance with federal law.

APPENDIX

ALLOTMENT CODES

327.01	Administrative Services
327.03	Conservation Administration
327.04	Historical Commission
327.06	Land and Water Conservation Fund
327.07	Commission on Indian Affairs
327.08	Archaeology
327.11	Geology
327.12	Tennessee State Parks
327.14	Natural Heritage
327.15	Tennessee State Parks Maintenance
327.17	Tennessee Elk River Resources Management
327.18	Maintenance of Historic Sites
327.19	Local Parks Acquisition Fund
327.20	State Lands Acquisition Fund
327.23	Used Oil Collection Program
327.25	Tennessee Ocoee Development Agency
327.26	West Tennessee River Basin Authority
327.28	Tennessee Dry Cleaners Environmental Response Fund
327.30	Environment Administration
327.31	Air Pollution Control
327.32	Radiological Health
327.33	Community Assistance
327.34	Water Pollution Control
327.35	Solid Waste Management
327.36	Department of Energy Environmental Oversight
327.37	Abandoned Lands Program
327.38	Hazardous Waste Remedial Action Fund
327.39	Water Supply
327.40	Groundwater Protection
327.41	Underground Storage Tanks
327.42	Solid Waste Assistance Fund
327.43	Environmental Protection Fund